Evaluating Representative Control of Monetary Policy: Do Hearings Matter?

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ABSTRACT

The role of formal monitoring - hearings - in the interaction between members of Congress and public sector managers is unclear. Proponents of the congressional dominance perspective anticipate passive adaptation of agencies to changing preferences of members of Congress. Formal monitoring should be rare and of little consequence for understanding agency behavior generally. Other observers identify formal change in either the leadership of the agency or formal monitoring in the form of hearings as precursors of change in outcomes. The introduction of routine formal oversight of monetary policy choices in 1978 (the Full Employment and Balanced Growth Act or Humphrey-Hawkins) was expected to lead to more representative input into monetary policy choices and more accountability for central bank decisions in the United States. This innovation in oversight behavior offers an opportunity to both test the effects of formal monitoring on agency behavior and to investigate the institutions that structure the accountability of the Federal Reserve System. I identify the effects of Humphrey-Hawkins on the frequency of hearings related to monetary policy, on the jurisdiction of committees with a stake in monetary policy outcomes, and on the relationship between economic and financial market shocks and hearings activity. The results indicate the 1978 rules had an important but largely unanticipated effect on the way that Congress monitors monetary policy. The new rules increased the frequency of hearings but limited opportunities for scrutiny of monetary policy outside of the House and Senate Banking committees.

Prepared for presentation at the Annual Meetings of the Midwest Political Science Association. April, 1999. Chicago, IL

Introduction

One object of perennial interest in public administration and political science is the problem of political control of the bureaucracy. The extent and variation of political control has motivated public choice critics of agency discretion and informed recent work on the role of bureaucracy in a democracy (Wood and Waterman 1994). Despite this continuing interest, the identification of the precise mechanisms of political control has been elusive. Two decades ago, members of Congress were routinely criticized for their inability to engage in coherent and sustained oversight (representative is Ogul 1976). Two more recent claims challenge this conclusion. Aberbach (1990) claims that members of Congress have in fact developed an elaborate network of committees and an expanding repertoire of oversight activities to challenge Executive control of public policy. McCubbins and Schwartz (1984) claim that the absence of overt congressional monitoring and oversight indicates nothing but the choice of members of Congress to rely on inexpensive "fire alarm" oversight, rather than a more systematic and centralized oversight strategy. Calvert, Moran and Weingast (1987) incorporate the fire alarm oversight findings in a more general treatment of congressional interaction with the bureaucracy that emphasizes passive adaptation of bureaucratic agents to changes in congressional preferences. Both of the more recent perspectives reject descriptions of members of Congress as either uninterested or incapable of monitoring and oversight. The utility of congressional monitoring and activity, however, is unclear. For Aberbach, oversight matters. For McCubbins and Schwartz, oversight is not really required for agencies to be responsive.

I focus on this paper on the highly structured and very public use of formal hearings related to policy outcomes and agencies. This particular type of legislative behavior is easy to observe: the duration and participants are known, the topics of the oversight are disclosed, deviations of agency behavior from committee preferences are overt. The effects of these highly structured hearings are not well understood, despite the availability of fairly rich data on hearings behavior. Rather than focus on formal hearings in the aggregate, I use the experience of the Federal Reserve System and the remarkable changes in the formal structure of Fed oversight in the 1970s to identify the consequences of hearings.

The case of the Federal Reserve System is particularly interesting for two reasons. First, Fed policy choices are consequential and a source of conflict between the Executive and the Congress, particularly under divided government. Hibbs (1987) and Alesina and Rosenthal (1993) have described distinctive partisan preferences over monetary policy outcomes. If each party has distinctive preferences and each party controls only one branch of government, then conflict over policy choices is likely. Second, Congress has no recourse to budgetary sanctions and only occasional opportunity to affect appointments to the Board of Governors of the Federal Reserve System. Formal

monitoring should be a particularly important type of activity for influence over monetary policy. If formal monitoring matters, then it should matter in interesting ways in the case of the Fed.

Oversight activity directed at the Federal Reserve System has operated under two very different sets of institutions in the postwar period. Before 1978, oversight was somewhat ad hoc: a number of committees could claim jurisdiction over monetary policy and there were no regular appearances of Fed actors before particular committees in Congress. After 1978, oversight is structured by the rules incorporated in the Full Employment and Balanced Growth Act. Twice each year, the Chairman of the Board of Governors of the Federal Reserve System is required to testify before appropriate committees in Congress. I exploit three sources of data to identify and measure the impact of the new rules. First, I use documents from the Carter Library to investigate the expected effects of the new monitoring and the Administration position on the legislation: did political actors expect more precise control? Second, I use existing data on the frequency of hearings (from the Policy Agendas Project) to measure changes in hearings activity before and after Humphrey-Hawkins. Finally, using a simple ARIMA model of hearing activity, I estimate the impact of the Humphrey-Hawkins Act on congressional oversight activity. One empirical objective is to identify when and under what committee jurisdiction oversight of the Fed has been most vigorous. Two major effects of the 1978 rules are clear. First, the new rules permitted the banking committees to stake a clear jurisdictional claim to monetary policy. Second, the frequency of extraordinary hearings activity has diminished: there are very few hearings held outside of the Humphrey-Hawkins framework.

Political control of the bureaucracy: the uncertain role of monitoring

Observers of public sector agency behavior have adopted two approaches to explain the behavior of public sector managers. Wilson (1989), for instance, focuses on the internal constraints of agency procedure and professionalism that shape the day-to-day decisions of public sector managers. Calvert, Moran and Weingast (1987) expect that external pressures - primarily the preferences of members of relevant congressional committees- influence the choices of the same managers. One criticism of approaches that claim members of Congress have some type of fundamental control over policy outcomes is absence of reliable mechanisms of political control (Moe 1989). Members of Congress do have a number of ways to communicate with agency managers, but -short of taking dramatic legislative action - the consequences of ignoring this communication are limited. The relatively wide range of less dramatic actions includes informal staff communications, formal oversight hearings, appropriations hearings or budget sanctions, commissioned or staff reports, statements to the media, or introduction of bills and other floor activity. The ultimate effects of this Congressional activity on agency behavior and policy outcomes, even for the set of scholars that identify members of Congress as highly influential, is often unclear. The two most widely cited challenges to congressional failure (McCubbins and Schwartz 1984; Aberach 1990) provide us with very different expectations about the behavior of Congress if agency behavior diverges from Congressional preferences. The member of Congress described by McCubbins and

Schwartz would be relatively unfamiliar with the extraordinary oversight activity and treat oversight as a last resort; the member of Congress described by Aberbach would be able to draw upon a well-defined set of oversight tactics to manage bureaucrats.

Identification and measurement of monitoring activity or active congressional participation of governance of the bureaucracy is problematic. McCubbins and Schwartz (1984) and Meier et al (1999) introduce distinctions between the types of monitoring behavior observed in Congress. *Fire alarm oversight* exploits constituent and interest group observations about agency performance to signal the need for oversight. *Police patrol oversight* suggests regular proactive (formal or informal) monitoring by Congress. *Bottom line governance* requires widely shared agency goals and easily monitored agency outputs that reflect agency performance. Khademian (1995) describes the Bank Insurance Fund of the FDIC in this context. Clear bottom lines are rare, since agency structure and procedures are often the product of political compromise (Moe 1989), but when clear bottom lines are identifiable, the jobs of both members of Congress and agency managers are easier. Performance related to the bottom line can motivate agency professionals. Poor performance is easily identified by attentive members of Congress. Meier et al (1999) invoke a "smoke alarm" metaphor to describe this type of bottom line governance.

Each of these perspectives on oversight shares a key central feature: the revelation of information. Objective measures of agency outputs facilitate evaluation of agency performance. Fire alarm oversight exploits the resource of a variety of political actors (especially interested groups) to signal agency failures. Proactive oversight is a more conventional extensive information search. Aberbach (1993) distinguishes between centralized and decentralized collection of information via monitoring. Centralized active monitoring implies some type of hierarchical control of monitoring activity and allocation of monitoring resources across problems and agencies - this clearly does not describe the Congress. But active monitoring can also be decentralized with individual committees independently engaged in systematic oversight. This type of active monitoring has been introduced in the context of the strategic interaction between members of Congress and public sector managers seeking resources. Monitoring by legislatures plays an important role in determining the extent to which bureaucrats will misrepresent effort and competence in an effort to secure resources from the legislature (Bendor, Taylor and Van Gaalen 1985). Epstein and O'Halloran (1995) identify the key informational role played by interest groups. They claim that members of Congress are particularly attentive to information supplied by moderate interest groups.[1] A range of interest groups provides useful information about agency; extreme groups provide incredible information.

The real effects of this information collection are unclear. Direct legislative control can be effectively used in instances where agency budgets are closely scrutinized. Mayer (1993) uses the number of defense budget line items altered by Congress each year to measure Congressional activism. (The level of this indicator rose from only 830 line item changes in 1970 to over 3,400 in 1987). This micromanagement reflects contested policy outcomes and uncertainty over Pentagon compliance with the demands

of members of Congress. But monitoring alone represents a relatively cheap venture and minor threat to agency status. Legislative initiatives sponsored by a committee and designed to directly address agency deficiencies are rare and subjected to veto or update by the broader chamber (Huxtable 1994).

Wood and Waterman (1994) treat monitoring as one of a number of tools that elected officials can introduce to manage agencies. Wood and Waterman describe two problems with scholarship that attempts to locate the source and measure the scope of political influence of bureaucracy. They note that early, qualitative assessments of political control did not emphasize or attempt to measure the relationship between political stimuli and agency practice and outcomes. Later work (including the congressional dominance work described above) has produced conflicting results. Meier and Eisner (1990), for instance, do not observe changes in agency behavior after changes in party control of the White House or changes to the composition of congressional committee. One reason that the empirical results are weak is due to limitations of data: measures of Executive stimuli (dummy variables) and legislative stimuli (ADA scores) are crude - annual at best and typically not weighted by any kind of indicator of salience or attention. To overcome this problem, Wood and Waterman adopt a variety of simple lag structures to capture decaying and time-varying effects of political stimuli. Typically, however, they focus on appointments and legislation rather than hearings. So, despite substantial empirical work and theoretical attention to the problem of political control, the importance of monitoring as a tool of influence and control remains uncertain.

The Federal Reserve System: monitoring and control

Munger and Roberts (1994) describe the development of the literature on congressional oversight of monetary policy. They note that work by Maisel (1973) identified and described the general weakness of congressional oversight directed at the Fed. The weakness was attributed to the lack of formal monitoring. Pierce (1978) also concluded that Congress, despite Humphrey-Hawkins, remained a weak monitor. Munger and Roberts note that much of the early work discounted congressional influence without attempting to measure the link between member preferences and monetary policy choices. They conclude that the empirical question remains very much open: does Congress matter? Grier (1991) makes one of the few efforts to measure the impact of members of Congress (specifically, members of the Senate Banking Committee) on monetary policy outcomes. Grier adopts the basic framework of the congressional dominance approach, expecting to observe changes in key Fed policy indicators when the ideological position of the chair of the Senate Banking Committee changes. Grier observes a positive and statistically significant relationship between the ADA score of the chairman and the growth rate of the adjusted monetary base. Chopin et al (1991) challenge these results. They claim that congressional influence does not appear to be important if data from the mid-1980s to the early 1990s are added to the sample selected by Grier. They also claim that there is no reason to believe, a priori, that the Senate matters more than the House. Havrilesky (1991) attempts to directly trace Congressional influence through statements from members of Congress that appear in the financial press. He observes that statements by members of Congress do not affect Fed outputs. It

is notable that none of the empirical treatments of congressional influence of monetary policy or the more pessimistic descriptions of Congressional oversight (recently, Beck 1991) identify formal hearings (the presence, absence, or frequency of hearings) as relevant to understanding Fed behavior.

The absence of empirical work on the effects of hearings is somewhat puzzling, since broader treatments of monetary politics (Woolley 1984; Kettl 1986) devote substantial attention to the controversy surrounding and consequences of attempts by members of Congress to gain control over monetary policy in the 1970s. Kettl (1986) comments on the attempts by members of Congress to gain information about monetary policy choices under Fed Chairman Arthur Burns. In the early 1970s. Henry Reuss and William Proxmire led a strong challenge to Fed autonomy and considered both placing new restrictions on Fed activity and creating a broader role for the Federal Reserve in a political process of credit allocation. This congressional scrutiny under the banking committees was a departure from immediate postwar experience, since the Joint Economic Committee was the focus of much of the direct criticism of Federal Reserve policy choices in the 1950s and 1960s. The resistance of Burns and other Fed decision makers to congressional attempts to acquire information generated an unusual coalition of populist and monetarist critics of Fed discretion - both sets of actors desired long-range money growth rate targets. House Concurrent Resolution 133 (adopted in 1973) required that the Board of Governors offer a quarterly report on the target rates for the monetary aggregates. Arthur Burns was a vocal opponent of routine congressional oversight and, under the requirements imposed with HCR 133, Burns made every effort to evade specific reporting of Fed monetary growth targets (Kettl 1986). Kettl concludes that the new hearings requirements provided a new political arena for the Fed to communicate and defend monetary policy choices - ultimately of benefit to both the Fed and members of Congress. This assessment is confirmed by experience under Humphrey-Hawkins.

Innovation in oversight: Humphrey-Hawkins

The Full Employment and Balanced Growth Act has several components, most notably the biannual reporting requirements imposed on the Federal Reserve and a collection of targets for macroeconomic outcomes and fiscal and monetary policy. During the consideration of H.R 50 - the legislation that ultimately became the Full Employment and Balanced Growth Act - most press coverage and controversy centered on the types and levels of targets for the macroeconomic aggregates (money, inflation, and growth) described in the bill. Humphrey- Hawkins was initiated in the House Education committees of Congress and the bill was advertised and packaged as an effort to codify federal responsibilities for job creation and training that would ultimately produce full employment. The Ford Administration opposed an early iteration of the bill (Humphrey-Javits). The Chairman of the Council of Economic Advisers under Ford, Alan Greenspan, described the bill as a "stalking horse" for mandatory planning and regulation of prices and wages.[2] When the bill was finally passed in November of 1978, the outcome was a consequence of compromise over the level of the macroeconomic targets - the introduction of hearings was perceived as unimportant relative to consensus on targets. Stein (1980) notes that the way the targets were defined - and the priority

assigned full employment over price stability - presage the inflation experience of the late 1970s. Humphrey-Hawkins *required* that full employment, budgetary balance, and price stability be achieved by 1988 at the latest. The target rates appear now as an artifact of Keynesian optimism at a time when economic performance was failing on a number of measures. The inflation and budget targets were so unrealistic that the targets failed to inform debate over monetary policy even two years after the act was signed into law. In addition to the targets and reporting requirements that applied to the Fed, the new rules placed new reporting and data collection requirements on the White House, the Department of Labor and the Joint Economic Committee.

The secondary objective of Humphrey-Hawkins, the reporting requirements, culminated an effort by members of Congress to gain more information about Fed targets and outputs. Members of Congress managed to institutionalize routine reporting in 1975, but the demand for more specific targets and Fed reporting carried over into the 1976 election. During his election campaign, Jimmy Carter advocated "mild" reforms of the Federal Reserve System to include both clear and public statements of Fed objectives by the Open Market Committee and formal targeting of monetary policy objectives incorporated in the Economic Report of the President.[3] The Humphrey-Hawkins Act fulfilled the promise for more structured reporting. Another reform package, the Federal Reserve Reform Act of 1977, updated the Federal Reserve Act to require Senate confirmation of the Chairman and Vice Chairman of the Board of Governors and representation of diverse business, labor and agriculture interests on the Board of Governors. The Carter Administration also proposed coterminous terms for the Chairman of the Board of Governors and the President, to be implemented by requiring the appointment of the Chairman on March 31 following the inauguration of the President. Coterminous appointment was rejected by Congress.

Keech (1995) suggests that the 1978 reporting requirements, despite the challenges by Arthur Burns, ultimately provided an important tool for central bankers. Humphrey-Hawkins reporting structures the accountability of the Federal Reserve System. The extent of this structure is somewhat remarkable. Committee jurisdictions were clarified by Humphrey-Hawkins language and practice. The Humphrey-Hawkins reporting framework has institutionalized Fed management of a narrow set of policy outputs, reducing uncertainty over likely Fed action and providing information to both congressional monitors and financial markets. Finally, Humphrey-Hawkins practices have defined appropriate times for challenging and reviewing monetary policy choices. I examine each of these three distinct effects (jurisdiction, outputs, and frequency of hearings) separately. The inescapable conclusion is that the formal structure is very important for understanding how members of Congress acquire information about and influence monetary policy and the central bank.

Jurisdiction and Oversight After Humphrey-Hawkins

The Policy Agendas Project offers a convenient source of data to measure the frequency of hearings related to monetary policy and the Federal Reserve System and to document the effects of institutionalized oversight and monitoring. Baumgartner and

Jones publish data on the topic, committee location, and duration of all hearings conducted by the House, the Senate, and any joint committees between 1946 and 1993. I use two pieces of information from the congressional hearings data set to identify committee activity related to monetary policy: topic codes and topic descriptions. Throughout the paper, I refer to hearings that specifically mention monetary policy keywords in the topic description as *narrowly-defined* monetary policy oversight. I refer to hearings that cover a range of economic issues related to monetary policy *as broadly-defined* monetary policy oversight. The topic codes and topic descriptions (keywords) used to identify hearings related to monetary policy oversight are described in Appendix A, below.

Committee jurisdictions for monetary policy oversight are well defined. In the period from 1947-1993, three committees actively participated in monitoring of the Federal Reserve System: the Joint Economic Committee, the Senate Banking Housing, and Urban Affairs Committee, and the House Committee on Banking and Financial Services. There are a limited number of hearings held by the Budget committees and occasional hearings held by the Committee on Small Business in the House. There is little competition over jurisdiction.

Baumgartner and Jones (1993) place competition over jurisdiction within Congress in the context of a broader process of decay and reinforcement of policy monopolies. Policy monopoly describes a stable set of relationships between a narrow set of committees (or a single committee), a small group of agencies, and a well-defined set of supporting interests (and, typically, a central and uncontested supporting idea). The way that jurisdiction is defined within Congress can reinforce existing regulatory choices and limit consideration of alternatives. Competition for jurisdictions is one source of change in this context. Over time, competition for committee jurisdiction undermines and weakens a policy monopoly. King (1997) investigates the specific ways that members of Congress assert and contest jurisdiction over policy areas. He identifies at least two sources of jurisdictional legitimacy: statutory jurisdiction and common law jurisdiction (jurisdiction clarified by the referral of enrolled bills). Under Humphrey-Hawkins, the Banking Committees in Congress have enjoyed both type of jurisdictional legitimacy.

Prior to Humphrey-Hawkins, jurisdiction over monetary policy was already well defined (by any measure). Table 1 reports the annual average of hearings days devoted to monetary policy and the Federal Reserve System in various committees in Congress. Before Humphrey-Hawkins, the Joint Economic Committee and the two Banking Committees account for nearly 95% of all hearings related to monetary policy and the Federal Reserve System. After, Humphrey-Hawkins, there is a modest challenge to the jurisdiction of the Banking Committees by the House Committee on Small Business, but the challenge is limited to hearings that do not involve referred bills.

[Table 1 About Here]

For hearings related to referrals, the jurisdiction of the Banking Committees is quite clear. The Banking Committees enjoy unambiguous "common law" jurisdiction

over monetary policy. The Banking Committees account for 95% of all hearings related to legislation where monetary policy is at issue. After Humphrey-Hawkins, no other committees in either chamber hold hearings to consider legislation directly affecting the Federal Reserve or monetary policy. The Joint Economic Committee held a 2-day hearing in 1985 to consider the budget status of the Federal Reserve System, but no appropriations or standing committee in the House or the Senate held hearings on legislation that affects the Federal Reserve after Humphrey-Hawkins.

The patent implication of this jurisdictional monopoly is that members of the Board of Governors of the Federal Reserve System (and the Chairman) know which members of Congress will evaluate monetary policy choices and outcomes. The Banking committees are the mandated audience for the semiannual report of the Federal Reserve System required by Humphrey-Hawkins. The language of the statute (reproduced in Appendix B, below) requires that the report be delivered to the Banking committees and practically precludes formal challenges to the jurisdiction of the banking committees. The notable institutional loser under the new arrangement is the Joint Economic Committee. Humphrey-Hawkins does set out rules for JEC review of the Economic Report of the President, but there is no specific mention of JEC oversight of monetary policy. As a result, JEC hearings days decrease marginally after Humphrey-Hawkins, while hearings days related to monetary policy (narrowly defined) in the Banking committees nearly double.

Defining Fed outputs after Humphrey-Hawkins

The Federal Reserve monitors a wide variety of monetary and financial market indicators: bank reserves, various money aggregates, debt levels (financial and nonfinancial debt and individual debt components such as consumer installment credit outstanding). The Fed also reports a variety of broader economic indicators (capacity utilization) and summarizes economic data from other agencies (labor market data and price indices) in the annual report of the Board of Governors. Before the mid-1970s, testimony before Congress reflected both internal confusion and strategic obfuscation of what really mattered to Fed decision-makers.

The monetary aggregate targets reported in the annual reports of the Board of Governors of the Federal Reserve System in the 1970s indicated substantial uncertainty over what targets were relevant to monetary policy and what levels of money growth were desirable or necessary to achieve stable economic growth. The annual reports include descriptions of changes in a number of money and financial indicators. In 1973, the Fed reported levels and percent change in the various money aggregates and the components of the aggregates, descriptions of changes in the flow of funds, and descriptions of bank reserves. Based on the annual report, it is difficult to determine which indicators or outcomes are assigned priority. Internal correspondence underscores this ambiguity. In early 1975, staff at the Federal Reserve Bank of San Francisco evaluated the policy significance of the narrow money aggregate, M1. The staff report concluded that M1 was a useful predictor of economic output and, further, that the use of other measures of money as intermediate targets would cause "massive confusion."[4] The

staff report does acknowledge a growing (and ultimately well-founded) concern that M1 was insufficient as an intermediate target for monetary policy. There was concern in the Fed and outside of the Fed that a single target was technically infeasible. Arthur Burns exploited this uncertainty by offering Congress a menu of aggregates and refusing to assign priority to one target over another (Kettl 1986).

Tentative Fed adoption of targets for multiple indicators was institutionalized very early in the oversight process. In the first testimony to Congress under the rules of HCR 133, Burns offered specific targets for the annual growth rate (percent change from last month of current quarter to last month of same quarter next year) of M1, M2, M3 and an adjusted credit proxy. Fed decision-makers elected to "roll the base" for each quarterly report delivered to Congress. The Fed provided projections for first quarter to first quarter for the February report, second quarter to second quarter for May report. If unexpectedly high or low rates of growth occurred in the preceding quarter, there was no requirement to revise targets upward or downward, so deviation from the targeted growth path was difficult to detect. Over time, members of Congress recognized the Fed tactic and introduced more specific language and requirements in Humphrey-Hawkins. Since the inception of Humphrey-Hawkins, the Fed has generated a consistent reporting protocol to describe targets and projections. For several years, the Fed has reported target fourth quarter-to-fourth quarter percent changes in domestic nonfinancial debt and two of the money aggregates (M2 and M3). Ranges for projected macroeconomic outcomes (fourth quarter to fourth quarter percent changes in Nominal GDP, Real GDP, the CPI, and the civilian unemployment rate) are directly compared with Administration budget assumptions in the biannual report. A variety of financial market outcomes - notably interest rates and exchange rates - are not targeted directly. But Humphrey-Hawkins rules require a discussion of the impact of this broader set of outcomes on monetary policy choices and targets (See Appendix B for the complete description of the Act).

The acceptance of one set of basic intermediate targets that frame Fed reporting and congressional monitoring reflects an important accomplishment under Humphrey-Hawkins. Members of the Banking Committees or other committees may castigate the Open Market Committee or the Board of Governors when nominal interest rates rise, but the Fed is not required to produce or meet targets for nominal interest rates. Despite the tenuous relationship between intermediate targets and the ultimate macroeconomic outcomes (either prices or gross national product), members of Congress have chosen and accepted a reporting regime that frames debate over monetary policy with projected targets for a limited number of money aggregates and a single measure of financial market borrowing.

Two sets of actors have unsuccessfully challenged this arrangement since Humphrey-Hawkins was introduced. First, critics of interest rate volatility under fairly strict monetary aggregate targeting (the monetarist experiment of the early 1980s) directed congressional scrutiny to nominal interest rates. Under the early Reagan Administration nominal interest on Government securities reached postwar highs. The combination of high and volatile interest rates led the Fed to retreated from narrow aggregate targeting and to return to short management of interest rates (Lombra 1988).

Despite the changes in Fed operating procedures, the Humphrey-Hawkins rules were not challenged or updated before or after the monetarist experiment. A second challenge to the Humphrey-Hawkins regime centers on the role of inflation in central bank targeting and reporting. The Bush Administration and, later, the Joint Economic Committee publicly advocated direct and strict targets for the inflation rate, rather than targets for intermediate targets. This prescription has found support among economists and informed central bank reforms in other countries. The proposals have not met with favorable treatment in the Congress. Without the support of the chairs of the Banking Committee, the effort has not received much attention from key congressional leaders and no legislation has been introduced to amend Humphrey-Hawkins. The Humphrey-Hawkins framework has thus endured criticism and challenges from groups that would hold the Fed accountable for either short-term movements in interest rate or long-run macroeconomic outcomes.

Frequency and timing of hearings

Members of Congress that take issue with monetary policy outcomes have a clear opportunity to question and challenge the Chairman of the Board of Governors if they serve on one of the Banking Committees. Absent this formal structure, members have to initiate hearings, challenge Fed management of a particular output, and demonstrate a jurisdictional claim over monetary policy. These obstacles generate the type off irregular oversight activity that was typical before Humphrey-Hawkins. Oversight activity in the House Banking Committee, the Senate Banking Committee, and the Joint Economic Committee is displayed in Figure 1, below. The hearings data seem to indicate that (1) there is a persistent if low-level monitoring of issues related to monetary policy in each committee and (2) committee members increase monitoring efforts in response to different sets of cues. The Joint Economic Committee held a number of hearings on monetary policy early in the Truman and Eisenhower Administration, but activity has declined since that period. Table 1, above, confirms that average number of hearings in the JEC is lower after 1979. The Senate devotes substantial attention to monetary policy during the second term of Eisenhower. House activity is very irregular, with periods of no activity punctuated by intense scrutiny in the late 1950s, the late 1960s and the late 1980s.

[Figure 1 About Here]

Under Humphrey-Hawkins, members of Congress are compelled to address monetary policy outcomes twice each year. Further, since the Chairman of the Board of Governors testifies twice each before the Banking Committees, other committees lose the authority to engage in monetary policy oversight. Since Humphrey-Hawkins, for instance, monetary policy oversight by the Joint Economic Committee has diminished to barely one day of oversight related monetary policy in a calendar year. This is a distinct change from the regime of JEC oversight observed after World War II. The timing of hearings of activity also indicates a stark change in behavior. After Humphrey-Hawkins was initiated, over 50% of all hearing days related to the Federal Reserve System are held in the months of February and July (29% in February and 23% in July). Roughly 24% of

all hearings activity on all issues (excluding monetary policy) occurs in these months (before and after Humphrey-Hawkins). Before 1978, only 23% of all hearings related to the Fed occur in these months. Humphrey-Hawkins rules structure the timing and frequency of oversight.

What drives oversight?

Two basic questions stem from the observation of somewhat frequent and time-varying hearings behavior. What drives oversight? What are the effects of oversight? This question is particularly important given the relatively weak correlation of hearings behavior across committees and (even more puzzling) across definitions of what constitutes monetary policy oversight. The annual pairwise correlation of hearings activity in each of the three primary oversight committees is reported in Table 2, below. Broadly-defined Senate hearings on monetary policy are not highly correlated with similarly-defined hearings activity in the JEC or the House. Narrowly-defined Joint Economic Committee hearings on monetary policy are not highly correlated with any activity in either chamber. What drives oversight in each of these committee contexts?

[Table 2 About Here]

Learning about the behavior of Congress from the hearings data is fairly straightforward. It is apparent that the frequency of hearings in both the Senate and the House changes after 1978, but it is not at all clear that Humphrey-Hawkins was a direct cause of this new behavior. Members of Congress may simply be responding to changes in objective economic conditions and not the structure imposed by Humphrey-Hawkins. Earlier work on congressional oversight identified the introduction of bills and related legislative activity as the primary indicator of congressional activity related to monetary policy. Kettl (1985) and Alt (1991) conclude that nominal interest rates drive bill introductions. Broz (1998) suggests that exchange rate volatility may drive current activity, implying greater sensitivity of members of Congress to global economic activity. The empirical strategy adopted by earlier efforts is to simply regress the relevant indicator (bill introductions) on the stimulus: interest rates or exchange rates. I replicate this approach using the hearings data. Six elementary models are summarized in Table 3, below: the relationship between hearings and macroeconomic outcomes and the relationship between hearings and nominal interest rates on Government securities. A dummy variable for the introduction of Humphrey-Hawkins hearings is included in each model. The dependent variables are broadly-defined measures oversight for each of the three committees that engages in routine oversight of the Fed: the two banking committees and the Joint Economic Committee. The dependent variable is the same oversight indicator depicted in Figure 1, above. The signs on each of the macroeconomic and financial market variables should be positive. Monitoring should increase when unemployment, inflation, or nominal interest rates increase. The sign for the exchange rate should be negative. As the dollar of the value declines, monitoring should increase. Each independent variable is lagged one quarter.

[Table 3 about here]

The estimates suggest two sets of conclusions: hearings behavior is somewhat disconnected from objective economic conditions and, if any relationships are present, domestic economic conditions exert more influence than international exchange rates. The value of the Ljung-Box Q, a portmanteau test for model specification, indicates that the trio of domestic outcomes outperforms the single international indicator in the sample period. The estimates also confirm one important finding suggest by the earlier discussion of jurisdiction. Humphrey-Hawkins rules reduce the monitoring activity of the Joint Economic Committee. It is tempting to conclude that - overall - nominal interest rates are the most important stimulus for monitoring. But since the inflation rate and interest rates are highly correlated, it is quite difficult to empirically assess which outcomes drive congressional attention. The results also raise a number of questions: Do hearings in one chamber drive hearings in the other chamber? If hearings are driven by a particular economic outcomes, does hearings activity ultimately affect Fed behavior and generate changes to these outcomes? Are the effects of hearings cumulative, persistent and long-lasting or merely transient shocks to stable Fed policy choices?

Testing for the effects of oversight on Fed outputs or macroeconomic outcomes is exceedingly difficult. The Fed influences a variety of instruments and targets. The federal funds rate, the adjusted monetary base and other money aggregates, and Fed purchases of government securities have each - at one time or another - been identified as the primary short or intermediate term indicator of Fed policy choices. Direct purchases were the focus of early efforts to estimates Fed *reaction functions* (Wood 1967). The adjusted monetary base is used by Grier (1991) and Chopin et al (1996) to test for the influence of political variables on monetary policy- Beck (1984) and Woolley (1988) use the federal funds rate, a short-term overnight interbank loan rate under fairly direct control of the Fed - to test for Executive influence over monetary policy choices. There is no theoretical consensus about which indicator is appropriate and informative - and the indicators are not correlated in the short-term. Uncertainty over the mechanisms of monetary policy transmission and other structural features of the macroeconomy makes it difficult to justify a choice of indicator or to link intermediate policy choices to long-run outcomes. Given that Humphrey-Hawkins reporting directs attention to the monetary aggregates, a case could be made for focusing on these intermediate targets as an indicator of monetary policy restraint or ease. It would be difficult to extend the results to the broader (and more substantively interesting) macroeconomic outcomes.

Conclusion

The Full Employment and Balanced Growth Act of 1978 was implemented during a period of poor economic performance when multiple competing views disputed the proper conduct of monetary policy: monetarist critics of high inflation demanded formal rules to regulate the growth of the money aggregates, labor insisted on money growth consistent with full employment, other actors preferred the status quo rules. The primary component of Humphrey-Hawkins (targets for growth, employment, and price stability) was a compromise designed to satisfy each of these groups. The ultimate result of the Act had the opposite effect. Today, only the Senate and Housing Banking Committees entertain testimony on monetary policy: agriculture, small business, and labor interests

have only a weak claim to a stake in monetary policy outcomes. Even the Joint Economic Committee is only indirectly represented at these hearings. In February of 1999, Connie Mack (R-FL) addressed used the Banking Committee biannual hearing as a forum to propose an amendment to the Federal Reserve Act to allow the Fed to focus solely on goal of price stability. Since Mack is a member of the Banking Committee and the Chairman of the Joint Economic Committee, the JEC enjoys access to Fed actors at least indirectly. Direct JEC inquiry is rare.

Historians of central banking in the United describe the Fed as creature of Congress (representative is Timberlake 1993), yet much of the political science work on the Fed is inattentive to congressional influence. This outcome is not entirely surprising. Much of the empirical work produced on the politics of monetary policy appeared at the time that proponents of congressional dominance asserted that observable monitoring should be rare. Routine formal hearings indicate poor control, not effective control. Meaningful changes were likely to be expected only when the composition of Congress or the occupant of the White House changes. This approach does not capture the effects of innovations such as Humphrey-Hawkins when, in fact, the institutions that structure oversight are highly informative.

In some ways, the effects of Humphrey-Hawkins are quite unexpected. Macroeconomics literature generally and monetarist critics of the Fed in particular identify political control of the money supply as anathema. Recent treatments of central bank autonomy emphasize the unambiguous salutary benefits of the independent central bank (Alesina and Gatti 1995). Representative control of money and credit is linked to a number of pernicious outcomes, notably persistent inflation and political business cycles. If the critics of representative control are correct, then the 1978 rules - designed to increase representative control over monetary policy decision making - would be expected to produce both higher and more volatile inflation rates. Recent outcomes and broader historical treatments of monetary policy fail to support this conclusion. Timberlake (1993), for instance, claims that Fed practice was most ineffective in 1932-1945, when Congress tacitly ceded control over Fed actions to the Executive. Given recent experience with low inflation and high economic growth, it may be appropriate to reflect on the benefits of accountability - the type of structured accountability that Humphrey-Hawkins provides - rather than focus on the presumed trade-off between democratic accountability and central bank performance.

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Table 1. Committee Jurisdiction.
Annual hearing days before and after Humphrey-Hawkins

Period	*1947.1-1978.12*	*1979.1-1993.12*
Total Hearing days		
Joint Economic Committee	44	59
Senate Banking Committee	103	66
Other Senate Committees	1,254	1,050
House Banking Committee	61	100
Other House Committees	1,797	1,965
Hearing days devoted to monetary policy and the Federal Reserve System (broad measure)		
Joint Economic Committee	16.87	13.66
Senate Banking Committee	16.57	18.30
Other Senate Committees	7.18	8.13
House Banking Committee	16.72	29.93
Other House Committees	10.73	23.46
Hearing days devoted to monetary policy and the Federal Reserve System (narrow measure)		
Joint Economic Committee	1.51	1.40
Senate Banking Committee	2.09	4.93
Other Senate Committees	0.12	0.40
House Banking Committee	4.39	7.53
Other House Committees	0.42	1.20
Hearing days devoted to monetary policy and the Federal Reserve System (narrow measure, referred bill)		
Joint Economic Committee	0.00	0.13
Senate Banking Committee	0.91	0.93
Other Senate Committees	0.00	0.00
House Banking Committee	2.24	1.46
Other House Committees	0.15	0.00

Table 2.

Annual pairwise correlation of hearings activity across committees (n=48)

COMMITTEE	SBC	JEC	HBC	SBC	JEC	HBC	SBC	JEC	HBC
Senate Banking (broad definition)	1.0000	0.0262	0.2383	0.1376	-0.1099	0.0154	0.1564	0.1161	0.2452
Joint Economic (broad definition)	0.0262	1.0000	0.1985	-0.1027	0.1184	0.0757	0.0828	**0.5796**	0.1456
House Banking (broad definition)	0.2383	0.1985	1.0000	**0.3917**	-0.2598	**0.5351**	-0.0426	**0.4817**	**0.7909**
Senate Banking (narrow definition)	0.1376	-0.0127	**0.3917**	1.0000	-0.0188	**0.4102**	0.0846	**0.4417**	**0.4796**
Joint Economic (narrow definition)	-0.1099	0.1184	-0.2598	-0.0188	1.0000	-0.1582	-0.0108	-0.0317	-0.0797
House Banking (narrow definition)	0.1054	0.0757	**0.5351**	**0.4102**	-0.1582	1.0000	0.0161	0.2740	-0.0648
Senate Banking (All hearings)	0.1564	0.0828	-0.0426	0.0846	-0.0108	0.0161	1.0000	-0.0648	-0.0807
Joint Economic (all hearings)	0.1161	**0.5796**	0.**4817**	**-0.4417**	-0.0317	0.2740	-0.0648	1.0000	**.5059**
House Banking (all hearings)	0.2452	0.1456	**0.7909**	**0.4796**	-0.0797	**0.4113**	-0.0807	**0.5059**	1.0000

Note: **Bold** indicates p<.05

Table 3.
Hearings Activity as a function of economic and financial market conditions

Dependent Variable: Quarterly Days of Hearings

Committee	*Joint Economic Committee*	*Senate Banking Committee*	*House Banking Committee*
Explanatory Variables			
Model 1 (Macroeconomic)			
Inflation Rate	0.13 (1.24)	0.17 (1.17)	0.10 (0.70)
Unemployment Rate	0.08 (0.32)	-0.09 (-0.23)	0.05 (0.13)
Average interest rate on Treasury securities	0.41 (1.87)	-0.00 (-0.06)	0.51 (1.57)
Humphrey-Hawkins (dummy)	-2.80 (1.78)	0.21 (0.11)	0.51 (0.28)
Ljung-Box Q (12 df)	1.5	5.3	10.1
ARIMA (p,q) specification	(4 8 12), 0	(2 4), 1	(2 4 8), 1
Model 2 (Exchange Rate)			
Exchange Rate	-0.00 (-0.15)	-0.00 (-0.07)	-0.02 (-0.61)
Humphrey-Hawkins (dummy)	-0.86 (-0.68)	-1.57 (-1.58)	0.35 (0.27)
Ljung-Box Q	8.9	15.4	19.9
ARIMA specification	(4 8 12), 0	(2 4), 1	(2 4 8), 1

Notes: approximate t-ratios in parentheses
All estimates from SAS/ETS (PROC ARIMA)
All AR and MA terms omitted from table

Appendix A.

Hearings on monetary policy and the Federal Reserve System (topic description)

Topic descriptions include:

monetary policy
monetary policies
Fed. Reserve
monetary and
monetary,
money supply
Federal Reserve
Federal Open Market.

[Total hearings identified: 236]
(147 House, 91 Senate, 26 Joint Economic Committee)

Hearings on monetary policy and the Federal Reserve System (coded topic)

Topic codes include:
100: General Domestic Macroeconomic Issues (and combinations of multiple subtopics)
104: Monetary Supply, Federal Reserve Board, and the Treasury
1501: U.S. Banking System and Financial Institution Regulation

[Total hearings identified: 1,508]
(708 House, 564 Senate, 226 Joint Economic Committee)

Appendix B. Excerpts from H.R. 50 (Public Law 95-523) 10/27/78

In furtherance of the purposes of the Full Employment and Balanced Growth Act of 1978 the Board of Governors of the Federal Reserve System shall transmit to the Congress, not later than February 20 and July 20 of each year, independent written reports setting forth (1) a review and analysis of recent developments affecting economic trends in the Nation, including an analysis of the impact of the exchange rate of the dollar on those trends; (2) the objectives and plans of the Board of Governors and the Federal Open Market Committee with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year during which the report is transmitted, taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices; and (3) the relationship of the aforesaid objectives and plans to the short-term goals set forth in the most recent Economic Report of the President pursuant to section 1022(a)(2)(A) of title 15 and to any short-term goals approved by the Congress. In addition, as a part of its report on July 20 of each year, the Board of Governors shall include a statement of its objectives and plans with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year following the year in which the report is submitted. The reports required under the two preceding sentences shall be transmitted to the Congress and shall be referred in the Senate to the Committee on Banking, Housing, and Urban Affairs, and in the House of Representatives to the Committee on Banking, Finance and Urban Affairs. The Board shall consult with each such Committee on the reports and, thereafter, each such Committee shall submit to its respective body a report containing its views and recommendations with respect to the Federal Reserve's intended policies. Nothing in this chapter shall be interpreted to require that the objectives and plans with respect to the ranges of growth or diminution of the monetary and credit aggregates disclosed in the reports submitted under this section be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions: Provided, That in the subsequent consultations with, and reports to, the aforesaid Committees of the Congress pursuant to this section, the Board of Governors shall include an explanation of the reasons for any revisions to or deviations from such objectives and plans.

ENDNOTES

[1] The decreasing frequency of competing claims to jurisdiction and direction of monetary policy has reduced the variety of interest groups demands managed by members of Congress interested in monetary policy. If balanced group demands are most informative, policy monopolies degrade information

[2] Memo. Alan Greenspan, Council of Economic Advisers to L. William Seidman. 18 June 1975. White House Central Files. Box # XX. Gerard R. Ford Library.

[3] "Carter on Monetary Policy" White House Central Files.. Box # XX. Gerald R. Ford Library

[4] Memo. James L. Pierce to Sheehan, Board of Governors of the Federal Reserve System. 23 May 1975. . Papers of Arthur Burns. Gerald R. Ford Library.